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# A Predictive Study to Determine the Structure, Capital Needs, and Performance of the Lodging Industry/The Role of Financial Institutions in Providing Capital to the Lodging Industry: A historic review and Delphi study to predict the scenario in years 2000 and 2005

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## Recommended Citation

Singh, A. J. (1999) "A Predictive Study to Determine the Structure, Capital Needs, and Performance of the Lodging Industry/The Role of Financial Institutions in Providing Capital to the Lodging Industry: A historic review and Delphi study to predict the scenario in years 2000 and 2005," *Journal of Hospitality Financial Management*: Vol. 7 : Iss. 1 , Article 9.

Available at: <https://scholarworks.umass.edu/jhfm/vol7/iss1/9>

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**A PREDICTIVE STUDY TO DETERMINE THE STRUCTURE,  
CAPITAL NEEDS, AND PERFORMANCE OF THE  
LODGING INDUSTRY/THE ROLE OF FINANCIAL INSTITUTIONS  
IN PROVIDING CAPITAL TO THE LODGING INDUSTRY:**

**A historic review and Delphi study to predict the scenario in years 2000 and 2005**

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**ABSTRACT**

The purpose of this study is to make predictions in six areas of concern for lenders, investors, owners, and managers associated with the lodging industry. These areas, which also represent 'uncertainties', include:

1. capital needs for the lodging industry
2. availability of capital for the lodging industry
3. cost and terms of capital
4. structural changes in the lodging industry
5. operating and investment performance
6. role of financial institutions as suppliers of capital to the lodging industry

The overall design of the study includes a descriptive component and a predictive component. The descriptive component includes a review and analysis of historical literature and interview data. The predictive component uses the Delphi technique, a qualitative forecasting method. The study is designed within the context of the 'open systems theory,' which views organizations as open, interacting, and dependent on resources from the environment. Given this premise, the purpose of using this underlying theory to design the study (it is argued) is that the source of 'uncertainties' impacting organizations originates from their environment. As a result, if this environment is clearly identified and systematically studied, some of the uncertainties can be converted into quantifiable risks with the desired result of an improved estimate of the future of U.S. lodging capital markets.

While the economy is expected to enter into a slower period by the year 2000 and possibly even reach the bottom of the business cycle in the year 2005, the prediction of key economic indicators (such as inflation, interest rates) for both periods is positive. The financial services industry, which is a source of both debt and equity capital for the lodging industry, is expected to be operating in a more deregulated and fiercely competitive climate in the future. Regulations that segregate the various financial institutions are

expected to be removed, opening up opportunities for each institution to expand the financial products that it can sell. The average firm in the lodging industry is expected to become larger through consolidation. This increase in size is not expected to be the result of major increases in room supply in the U.S. The firm size is expected to grow through a combination of mergers, international expansion, and introduction of new lodging products (e.g. extended stay, assisted living facilities).

While Delphi panelists concur that capital will be available in both the periods, lenders are likely to become increasingly selective as to whom (and for which lodging products) they will lend. Only those who meet the toughening operations/investment return requirements of lenders are likely to have ready access to capital in future. Although lending terms/criteria are not expected to be overly stringent, panelists hope that there will be enough capital market discipline to prevent overbuilding in the hotel industry. The study also presents detailed predictions of panelists on the financial institutions expected to supply capital in the future, on the purposes for which capital will be supplied, and on the type of capital (debt versus equity) that will be provided.